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An Examination of the Impact of Alternative Accounting Procedures on Risk-Taking Behavior: A Test of Prospect Theory

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An Examination of the Impact of Alternative Accounting Procedures on Risk-Taking Behavior: A Test of Prospect Theory

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ABSTRACT

Many business decisions which use accounting information are made under conditions of uncertainty and are biased, in part, on relative gains and losses. Therefore, accounting settings appear to be a particularly appropriate setting to test the predictions of prospect theory. To date, little accounting research has been conducted which has used prospect theory as its theoretical foundation. Using a discount period decision under risk, practicing accountants were asked to indicate the likelihood of making an inventory payment. The results of the study provide limited support for prospect theory propositions. It also is interesting that the perceptions of and ethical conflict by subjects significantly impacts the likelihood assessments made by the subjects.